Michigan Schools Energy Cooperative - School Electric Choice Savings for Senate Energy and Technology Committee

MI Senate District 09 - Bieda	Cumulative Savings Thru Dec 2015
Center Line Public Schools	$ 673,697
Chippewa Valley School District	$ 6,980,651
Fraser Public Schools	$ 794,868
L'anse Creuse Public Schools	$ 2,992,488
Macomb ISD	$ 322,738
Van Dyke Public Schools	$ 1,157,302
Warren Woods Public Schools	$ 1,377,250
	$ 14,298,994

MI Senate District 06 - Hopgood	
Gibraltar School District	$ 787,867
Huron School District	$ 139,372
Livonia Public Schools	$ 248,667
Taylor School District	$ 991,966
Van Buren Public Schools	$ 784,719
Washtenaw ISD	$ 324,762
Wayne-Westland Community Schools	$ 3,136,379
Woodhaven-Brownstown School District	$ 142,355
	$ 6,556,087

MI Senate District 32 - Horn	
Bay City Public Schools	$ 67,846
Bay-Arenac ISD	$ 279,866
Bridgeport-Spaulding Community Schools	$ 10,101
Durand Area Schools	$ 210,069
Fenton Area Public Schools	$ 384,088
Frankenmuth School Distict	$ 308,024
Genesee ISD	$ 414,606
Hemlock Public School District	$ 422,292
Merrill Community Schools	$ 68,719
Reese Public Schools	$ 194,246
Saginaw ISD	$ 17,010
Saginaw Public Schools	$ 2,309,664
Saginaw Township Community Schools	$ 970,454
Swan Valley School District	$ 485,341
Tuscola ISD	$ 237,444
	$ 6,379,768

MI Senate District 22 - Hune	
Brighton Area Schools	$ 1,500,595
Dexter Community Schools	$ 1,333,271
Fenton Area Public Schools	$ 384,088
Fowlerville Community Schools	$ 684,588
Genesee ISD	$ 414,606
Hartland Consolidated Schools	$ 59,591
Huron Valley Schools	$ 2,739,487
Ingham ISD	$ 250,447
Livingston ESA	$ 122,793
Pinckney Community Schools	$ 2,018,017
Saline Area Schools	$ 2,266,373
South Lyon Community Schools	$ 1,949,137
Washtenaw ISD	$ 324,762
Whitmore Lake Public Schools	$ 156,297
	$ 14,204,050

MI Senate District 05 - Knezek	
Crestwood School District	$ 136,153
Dearborn Public Schools	$ 3,952,771
South Redford School District	$ 859,764
Taylor School District	$ 991,966
Wayne-Westland Community Schools	$ 3,136,379
	$ 9,077,033

MI Senate District 19 - Nofs	Cumulative Savings Thru Dec 2015
Albion Public Schools	$ 131,106
Battle Creek School District	$ 1,481,586
Caledonia Community Schools	$ 837,209
Calhoun ISD	$ 188,180
Carson City-Crystal Area Schools	$ 44,977
Climax-Scotts Community Schools	$ 112,898
Grand Ledge Public Schools	$ 930,479
Ionia County ISD	$ 40,373
Ionia Public Schools	$ 607,208
Kalamazoo RESA	$ 284,185
Kent ISD	$ 831,343
Lakeview School District	$ 308,752
Olivet Community Schools	$ 303,036
Plainwell Community Schools	$ 81,912
	$ 6,183,244

MI Senate District 21 - Proos	
Calhoun ISD	$ 188,180
Kalamazoo RESA	$ 284,185
Vicksburg Community Schools	$ 50,255
	$ 522,620

MI Senate District 26 - Schuitmaker	
Allegan Public Schools	$ 669,238
Caledonia Community Schools	$ 837,209
Hudsonville Public Schools	$ 98,833
Kelloggsville Public Schools	$ 282,850
Kent ISD	$ 831,343
Lawrence Public Schools	$ 73,970
Ottawa Area ISD	$ 643,339
Plainwell Community Schools	$ 81,912
	$ 3,518,694

MI Senate District 16 - Shirkey	
Albion Public Schools	$ 131,106
Calhoun ISD	$ 188,180
Camden-Frontier Schools	$ 34,254
Concord Community Schools	$ 149,794
Ingham ISD	$ 250,447
Jackson Public Schools	$ 790,268
Vandercook Lake Public Schools	$ 97,946
Washtenaw ISD	$ 324,762
	$ 1,966,757

MI Senate District 17 - Zorn	
Gibraltar School District	$ 787,867
Huron School District	$ 139,372
Ida Public Schools	$ 94,208
Milan Area Schools	$ 894,142
Monroe Public Schools	$ 1,138,696
Summerfield Schools	$ 161,237
Tecumseh Public School District	$ 656,742
Washtenaw ISD	$ 324,762
Whiteford Agricultural Schools	$ 85,916
	$ 4,282,943

School district assignment to Senate district: mischooldata.org

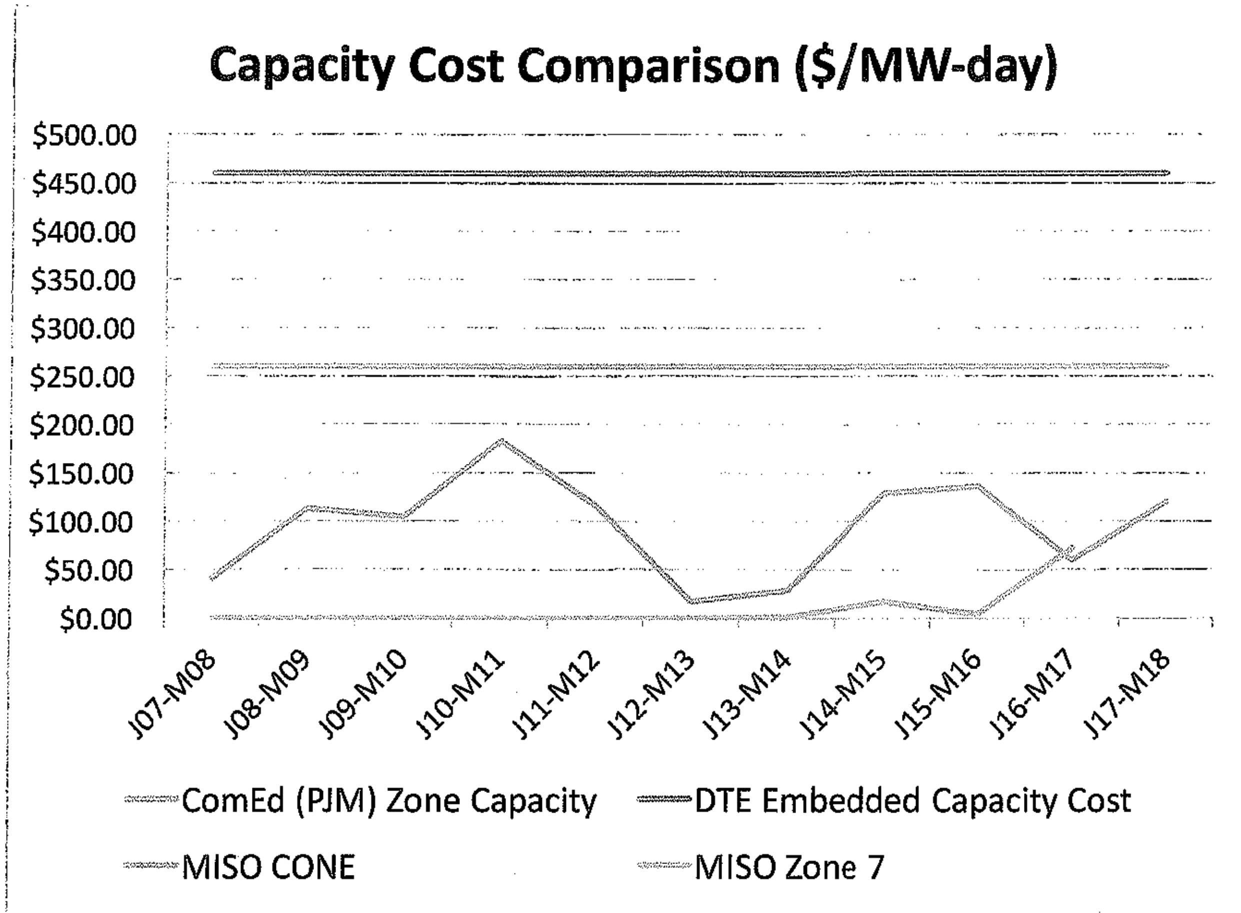
Chairman Nofs, Vice Chairman Proos, and Members of the Committee,

My name is Richard Spilky. I work in the retail analytics department at Constellation, an Alternative Energy Supplier (AES) serving MISEC in Michigan under the Retail Open Access Laws. I have been asked by MISEC to testify to impacts of Senate Bill 437 to the MISEC schools participating in electric choice.

AES, like any other retail supplier, procure their supply from the wholesale markets. This is why wholesale markets exist for any product – to provide a source for retailers to procure the commodity used in the product they sell to end-use consumers. In Michigan, the Midcontinent Independent System Operator or "MISO" serves as the facilitator of the wholesale market where AES procure from wholesale generators the electric supply used to serve their customers.

Much has been made about increasing capacity prices in MISO's wholesale market, because the clearing price for capacity in MISO's planning reserve auction went from about $3.48/MW-day last year to about $72/MW-day for the 2016/2017 planning year. Even with this increase, customers like MISEC can (and are) still experiencing significant savings with retail choice. By way of comparison, utility executive recently testified before this committee that their current embedded fixed cost of capacity is about $460/MW-day. This is compared to the aforementioned $72/MW-day. Even if MISO's auction hit its cap price which is about $260/MW-day, we estimate that MISEC could still realize $3.5M in annual savings. This cap represents the cost of building new generation. So even at this cap, where the wholesale market would be signaling the building of new generation, there are still significant savings that can be realized by MISEC.

It is true that in the competitive wholesale capacity market prices do change year over year, but customers in Michigan including the MISEC schools still receive great value from markets despite these price changes. By way of example I would like to show you the following slide representing capacity prices in various wholesale markets. Our purpose in providing this visual is to assist in understanding the benefits that customers receive from transparent wholesale markets for capacity.



The top line represents the utility cost of capacity for DTE here in Michigan. The green line at the bottom shows the year over year cost of Capacity in MISO. As you can see, even at the recent clearing price of $72/MW-day we see a significant cost savings opportunity from the capacity cost component alone for Michigan schools and businesses taking competitive retail supply. The purple flat line represents the MISO cap, the highest prices in the MISO wholesale capacity market can go, which again represents new build generation in the region. As an additional data point I included the blue line which shows the year over year price changes for capacity in PJM market. Yes the PJM capacity price has and does change each year and is generally higher than MISO zone 7, but it is a price that is three years out so there is plenty of time for generators, suppliers, and customers to plan. Despite the annual changes to the price of capacity in MISO and PJM, these prices are still well below DTE. .

Additionally, it is important to emphasize that it is the CUSTOMERS served by retail suppliers that are receiving this cost savings benefit. There has been a misconception that somehow the AES are pocketing the difference between the $460/MW-day and $72/MW-day dollars shown on this chart. That is not the case. That is one of the great benefits competitive choice provides to Michigan schools and businesses; suppliers are competing for their business and must offer the best price and service to get that business. The undisputable fact is that the savings go directly to the Michigan schools and businesses that enjoy the benefits of competitive markets and choice. Naturally, these savings often equate to Michigan jobs and economic growth for many businesses, communities and consumers here in the state (not just two large utilities).

With regard to the cost impacts of Substitute Senate Bill 437, I can confirm that the capacity purchasing requirements in the substitute bill would still make Retail Open Access cost prohibitive. Simply put, the bill denies suppliers the ability to access the most common and available wholesale market for capacity. The bill denies this access in a number of way. First, the requirement to secure 2 years of firm capacity for retail load on an annual basis, in the timeframe the bill requires, is neither feasible nor cost effective within the current retail and wholesale market structures in Michigan. In fact, the timeline and requirements in the bill prohibit the use of the most prudent and readily available wholesale market. Substitute Senate Bill 437 specifically eliminates the ability of Constellation to use the MISO planning reserve auction in May for compliance as the Bill requires AES to show owned or purchased capacity in the November prior to the May auction. In addition, MISO's current capacity market is held only 2 months prior to the delivery year, a full year short of the proposed 2 year requirement under the bill. Because the bill makes the MISO wholesale capacity market unavailable to Constellation to procure supply for our customers, including the schools, we would ultimately be forced to find bilateral sellers of capacity. Actually finding sellers other than the two incumbent utilities, for the capacity would be challenging if not impossible in the current market structure.

In effect, if passed, Substitute Senate Bill 437, by stripping suppliers of access to the one available wholesale market to procure supply, would force Constellation to negotiate for a product that we are mandated to buy, with only two sellers who are aware of our mandate to buy the product. Without question, it would be challenging if not impossible to find and execute bilateral contracts to secure capacity as proposed in Substitute Senate Bill 437 for a reasonable price. The Bill essentially forces AES to transact with utilities that have no incentive to charge anything less than the $460/MW-day, and denies AES access to a wholesale capacity market that is capped at $260/MW-day, and again, that cap represents the building of new generation.

In summation, my key conclusion is that Constellation would likely be unable to execute wholesale capacity contracts under this structure and as such would be unable to provide retail electric supply service to MISEC. The numbers given in my testimony are only for illustrative purposes and were developed using conservative assumptions.

I would like to answer any questions committee members may have about the savings estimates or the cost impacts to MISEC as provided in the testimony.

Thank you.